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M&A @ FACEBOOK:

STRATEGY, THEMES AND DRIVERS

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Abstract

Most deals are motivated by the recognition of a strategic threat or opportunity in the firm's competitive arena. These deals seek to improve the firm's competitive position or even obtain resources and new capabilities that are vital to future prosperity, and improve the firm's agility. The purpose of this work project is to make an analysis on Facebook's acquisitions' strategy going through the key acquisitions in the company's history. More than understanding the economics of its most relevant acquisitions, the main research is aimed at understanding the strategic view and key drivers behind them, and trying to set a pattern through hypotheses testing, always bearing in mind the following question: Why does Facebook acquire emerging companies instead of replicating their key success factors?

Keywords

Facebook; Acquisitions; Strategy; M&A Drivers

“The biggest risk is not taking any risk... In a world that is changing really quickly, the only strategy that is guaranteed to fail is not taking risks.”

Mark Zuckerberg, founder and CEO of Facebook

Literature Review

M&A activity has had peaks throughout the course of history and different key industry-related drivers triggered that same activity (Sudarsanam, 2003). Historically, the appearance of the first mergers and acquisitions coincides with the existence of the first companies and, since then, in the US market, there have been five major waves of M&A activity (as summarized by T.J.A. Nouwen, 2011). The first wave of M&A activity, also known as the “Great Merger Wave”, was recorded from 1893 to 1904, in the follow up of the post-industrial revolution age. This period is characterised by a consistent growth of the World Economy (Clark, 2007) and, regarding M&A activity, it can be characterised as a period of high horizontal consolidation activity, with the main companies within the same industries nearly becoming monopolists, mainly in the oil, mining, and steel industries (Sudarsanam, 2003). The main driver for the main companies’ M&A activity, that contributed to this first wave was market control and competition anticipation, paid by cash generated in the previous intense economic growth period, and enabled by the not strong enough market regulation, namely the Sherman Antitrust Act, passed in 1890, to limit cartels and monopolies to arise (Stigler, 1950). The wave stopped around a period of economic stagnation, and the threat of the First World War.

The second wave, smaller in magnitude, begins in the 1910s and ends in 1929, in a post-war scenario of economic recovery with the rise of oligopolies in the food, paper, printing and iron industries. The goal for the small companies that survived the first wave, now backed by the reinforced Sherman Act (Stigler, 1950), and active on the newly equity financed M&A market, was to gain economies of scale to compete with the giant firms. This period is also characterised by the appearance of vertical consolidation (Sudarsanam, 2003).

The Second World War is followed by the Great Depression, but from 1955 until 1975, period of the third merger wave, companies gave rise to the concept of diversification, and

conglomerates emerged with the acquiring of companies from different industries, with the main purpose of reducing their default risk (Sudarsanam, 2003).

The fourth merger wave was verified in the 80s. In this, hostile takeovers were introduced, being mainly financed by debt. This practice was seemingly unsustainable, resulting from sudden access to large amounts of debt for Leverage Buy-Outs, and soon led most companies to divest the divisions recently bought (Shleifer & Vishny, 1991).

Finally, the fifth merger wave was verified in the 1990s, during the boom of globalization, which led to an increase in cross-border acquisitions. The most important driver for the acquiring companies was inorganic growth. Technological innovations started to change the way companies organised themselves in areas like information technology, and also led to a refocus on going back to the core competences to gain competitive advantage (Sudarsanam, 2003). This period was also marked by extensive overpayment, overvaluation of acquiring firms, prevalence financing, and significant value destruction for the shareholders of the acquiring firms (Andrade, Mitchell, & Stafford, 2001); (Dong, Richardson, & Teoh, 2006); and (Moeller, Schlingemann, & Stulz, 2005).

In 2011, Alexandridis, Mavrovitis, and Travlos show evidence from a sixth merger wave, between 2003 and late 2007s. Although they verify that acquisitions have lower premiums than those in the past, implying more rational acquisition decisions, they conclude that value was destroyed, at least as much as in the fifth merger wave. They also verify that premiums on high-tech target firms are the highest in relation to other industries, and conclude that “acquirers were less acquisitive and acquirer CEO’s displayed less over-confidence about their ability to create value”. The verified result of M&A activity in this last wave was value creation for the acquiring firm’s shareholders. Despite M&A activity coming in waves there is more and more a continuous component of it, meaning that there is a component uncorrelated with the capital

markets situation and is mostly driven by companies' strategic choices regardless of apparent scarcity of funds "never a great deal was not done because of lack of capital".

1. Introduction

With all history behind, in 2017 people are leaving in the age of technology and innovation, and now-a-days, innovation is the key driver for the success of any high-tech company.

But what drives M&A activity in high-tech companies?

A McKinsey article released in May 2017 states that: "Many technology-based companies buy other companies that have the technologies they need to enhance their own products. They do this because they can acquire the technology more quickly than developing it themselves, avoid royalty payments on patented technologies, and keep the technology away from competitors."

Shall this be the case for Facebook Inc? What other factors may explain Facebook's Acquisition strategy?

2. Company Overview

Facebook was founded in 2004 with the mission of making the world more open and connected. It was originally known as "thefacebook", an exclusive platform for Harvard students enabling them to connect more easily, get information on students' events and get information on each other's lives. Gradually, Zuckerberg allowed students from other universities to join the network. Since 2006, all people with a valid e-mail address who claim to be at least 13 years old can join the social network. Facebook Inc held its Initial Public Offering in February 2012 and started selling stock to the public three months later reaching an original peak market capitalisation of 104 billion dollars. On July 13, 2015, Facebook became the fastest company in the Standard & Poor's 500 index to reach a market capitalisation of 250 billion dollars.

Facebook is the most used online social networking platform in the world with 2.07 billion monthly active users as of September 2017, allowing its users to have an online personal profile, add other users as friends, communicate through messaging, upload photographs, and share statuses, among many other activities.

Facebook Inc's products include Facebook, Instagram, Messenger, WhatsApp, and Oculus.

Disclaimer: Throughout this thesis all mentions to Facebook refer to Facebook, Inc.

3. Quick Industry Analysis and Competitive Situation: Where does Facebook stand?

It is not clear at first guess in which industry Facebook operates. Answering a few simple questions may help solve that problem, always bearing in mind that this industry we're now trying to define is **fast-moving** and has **unclear boundaries**, given the different future monetisation possibilities for Facebook and its competitors. These two characteristics are due to further analysis in the subsequent chapter 3.1.

For now, we'll try to answer two seemingly simple questions: How does Facebook make money? Who are Facebook competitors?

Facebook operates in the technological sector and its main competitor is Google, even though it also competes with other online research engines and social networks, such as Twitter, and any website which collects data and habits of its users, like Amazon. All these companies and websites have one thing in common: they collect data on their users, and use it to raise money.

From this point on it is easier to understand how Facebook makes money. At the moment, Facebook's revenue model rests on selling **highly targeted advertising**. These ads are useful for any company, or any Facebook page, who wishes to make campaigns for specific targets. The data collected on Facebook users allows companies to save millions in advertising campaigns that without Facebook would be massive untargeted campaigns, such as the ones

conducted through outdoors, in loco campaigns, and TV commercials, whose targeting capabilities are limited.

Why is Facebook the best website for a company to run its advertising materials? The answer is **Facebook's Number of Users**. Appendix 1 shows the evolution of Facebook's users from Q3 2008 to Q2 2017. As of September 2017, Facebook had around 2.07 billion monthly active users, and any company can target the number of people they want by name, geography, age, sex, any other demographic data, interests, behaviours, and target people who like a companies' or any other Facebook page, or even people who are friends with people who like a specific Facebook page. Given this information, it can be concluded that, for now, the industry in which Facebook operates can be classified as **Internet Information Providers**, where Facebook is the top player, despite being impossible to know the industry Facebook will be in, in the future.

3.1. Internet companies: Then, Now, and After

Internet companies face and have been facing a high volatile and fast-moving environment, since internet exists, because they operate in a highly competitive market. At the moment, Facebook, Inc has a business model based on highly targeted advertising, but it is unclear if it will remain that way in the future, and it is even unclear whether Facebook will be in the market in 10 or 20 years. To illustrate this, one must think that companies like Facebook, Google, and Amazon didn't exist in 1996, and now are among the most valuable companies in the world.

In Appendix 2, to further address the topic of uncertainty related to the world's businesses paradigm, it can be seen a comparison between the top listed companies by market capitalisation in 2006 as opposed to 2016, and it is clear the preponderance internet companies gained in ten years, and impressive how there is practically a new list for the top ten companies.

It is impossible to know how that list will be composed in 2026, but internet companies are eager to remain there, to survive, and to be pioneer in the next big viral product/ service/ thing.

4. Facebook's Acquisitions

4.1. *Acquisitions Before Instagram: Is there a pattern?*

Before Acquiring Instagram, Facebook seems to have created a pattern in its acquisitions. The main goal of most acquisitions was to acquire talent. Facebook's CEO, Mark Zuckerberg, clearly stated that not once Facebook had bought a company for the company, but to get **excellent people**. The focus of these "acqui-hirings" was to make sure that the recruitment process was the best possible, always trying to maintain an **entrepreneurial environment** to boost innovation. This last part is crucial, and Mark Zuckerberg thinks it is of capital importance that Facebook's collaborators/employees have entrepreneurial and creative mindsets, hence the acquisition of people that have gone through the process of creating a company from scratch.

From Instagram, onwards the scenario is different, and the pattern changes. Before going for an analysis of Facebook's M&A strategy, the key acquisitions are as follows.

4.1.1. *Key Acquisitions & Main Drivers*

The first acquisition of Facebook in 2007 was *Parakey* which is a perfect example of talent acquisition. *Parakey* was founded in 2005 by Blake Ross and Joe Hewitt, who are known for their contribute on the development of Mozilla Firefox Browser, and was a web-based computer interface which aimed to ease the transfer of image, video, and writing to the web. Facebook bought *Parakey* for an undisclosed amount, but apparently with no interest on the product the two developers were creating but with interest on the two developers themselves who were incorporated in the company as product directors. Joe Hewitt ended up being responsible for creating Facebook's iPhone mobile app, which in November 2009 was the most downloaded app of all time. Both developers left Facebook latter on, Ross in 2013, and Hewitt in 2011, to work in personal projects.

FriendFeed was a real-time feed aggregator that consolidated updates from social media, and other social networks and websites, that was acquired by Facebook on August 10, 2009 by 15 million dollars in cash and Facebook stock valued at the date of acquisition at 32.5 million dollars. There were three main drivers for this deal, which are product incorporation, talent acquisition, and a key opportunity to improve the firm's competitive position in the market.

Facebook had already incorporated some key features before this deal, namely the Like Button, the way posts go to the top of the feed as new users comment on them, and real-time feed's refresh without manual control, which are some of the most popular features on the social-network, but the deal allowed for access to the intellectual property behind those features. Also, Facebook managed to integrate on the team the four ex-Google and *FriendFeed* co-founders: Paul Buchheit, Bret Taylor, Jim Norris, and Sanjeev Singh, along with eight other engineers who were also on the *FriendFeed*'s team. Finally, this deal was a clear move on Twitter, for the leadership in real-time web.

In March 2010, Facebook makes another key move with similar drivers to *FriendFeed*, with the acquisition by an undisclosed amount of Divvyshot, a group-sharing photo site which invented the concept of tying photographs to places, people, and events. This feature was incorporated in Facebook's platform, and the deal also included talent acquisition of the co-founders, Sam Odio, and Paul Carduner.

Snaptu, acquired by Facebook in March 2011, is a mobile app created by an Israeli start-up which aimed at connecting users, with even a rudimentary phone, to the mobile web, being an aggregator of more than 30 free applications. In January 2011, it had over 78 million users worldwide, mainly from third world countries. The main driver of this acquisition, whose value amounted to around 70 million dollars, was customer acquisition in new geographies. Also,

tech acquisition from *Snaptu* plays an important role, because its tech runs in around 80% of mobile phones available in the market.

This acquisition played a capital importance in the development of a latter version of *Snaptu* which focused on Facebook only, called *Facebook for Every Phone*. This strategy enabled Facebook to acquire more than half a billion active users as of 2014.

4.2. Instagram: Controlling a competitor and enhancing a market player

Instagram is a mobile, desktop, and Internet-based photo-sharing application, where users can take photographs, add filters, and share, publicly or privately, pictures and videos. Created by Kevin Systrom and Mike Krieger, it was launched in 2010. On April 3, 2012 *Instagram* had already 30 million iPhone monthly active users, when it launched the Android version. In 24 hours, *Instagram* registers one million Android sign-ups. By the time Facebook acquired *Instagram*, on April 9, 2012 it had around 35 million users, 30 million iPhone users plus 5 million Android users (Appendix 3). The acquisition was officially closed for 1 billion US dollars in a combination of cash and shares of Facebook. One month later, the total number of users amounted to 50 million. In September 2017, the monthly total active users amounted to 800 million (Appendixes 3 and 4). There are many key drivers that led to the acquisition of *Instagram*, the most obvious ones being: a) increasing the number of users that is strictly related to increasing revenue, because there's more data on users and consequently better segmented online ads; b) Increase the firm's competitive situation by eliminating one direct competitor, *Instagram*, and preventing other giants from acquiring it.

4.3. WhatsApp: The users' sponge acquisition

WhatsApp is a cross-platform instant messaging and voice over IP service, allowing users to send text messages, images and other media, documents, user location, and do voice and video calls. It was founded on February 24, 2009 by Brian Acton and Jan Koum, former Yahoo!

employees. By June of the same year the number of active users suddenly increased to 250 thousand. By 2011 *WhatsApp* was in the top 20 apps in Apple's US App store, and by February 2013, it had about 200 million active users and 50 staff members. Facebook announced the acquisition of *WhatsApp* on February 19, 2014 for 19 billion US dollars, decomposed in 4 billion dollars in cash, 12 billion dollars in Facebook shares, and 3 billion dollars in restricted stock, granted to the founders with a vesting period of four years. As of July 2017, *WhatsApp* had around 1.3 billion monthly active users worldwide.

4.4. Oculus VR: A long-term bet on the future of computing

Oculus is a company that specialises in virtual reality hardware and software products, founded in July 2012 in California by Palmer Luckey, Brendan Iribe, Michael Antonov, and Nate Mitchell. *Oculus* was acquired by Facebook in March 2014 for a combination of cash and Facebook stock amounting to 2.3 billion dollars (400 million dollars in cash, 23.1 million common shares of Facebook valued at 1.6 billion, and 300 million dollars if Facebook reached specific milestones). Mark Zuckerberg explains that Facebook Inc wanted to start building the next major computing platform that will come after mobile, and that the acquisition of *Oculus VR* is a bet on the future of computing. There's a strong belief from the founder and CEO of Facebook that immersive virtual and augmented reality will become a part of people's everyday life.

4.5. Other Acquisitions

A full list, with a quick description, of the companies acquired can be consulted on appendix 5 for the ones who wish to get deeper knowledge on the businesses and operations of Facebook's Acquisitions.

5. Finding a pattern in Facebook's Acquisitions

5.1. Defining the hypotheses

Facebook is the most popular and powerful web-based social networking platform in the world.

So, it is rational to assume that any feature or product integration or development from emerging companies would be more successful than the original ones. And, it is also safe to assume that Facebook with internal resources could replicate those products. So, why not copy?

Why pay such large amounts of money for something that can be developed with internal resources? Why does Facebook acquire emerging companies instead of replicating their key success factors?

To better schematise and answer these questions, the following hypotheses must be set:

Hypothesis 1: Facebook acquires tech newcomers to internalise their features, technology, and patents without having to deal with dubious copyrights issues – in a legal issues risk management perspective.

Hypothesis 2: Facebook acquires digital platforms to reinforce its customer interface quality, by integrating valuable human resources and product development know-how.

Hypothesis 3: Facebook acquires digital platforms to enlarge its customer base and increase user engagement to feed data pool that ensures highly segmented online ads.

Hypothesis 4: Facebook acquires digital platforms to improve the firm's competitive situation, and carry on a strategy of long-term positioning as the main web-based platform in the world.

Hypothesis 5: Facebook acquires digital platforms to develop innovative business areas, such as, Virtual and Augmented Reality, chatbots, and Artificially Intelligence.

The following step is to analyse the hypotheses set, in a qualitative and quantitative perspective, when possible, and finally look for a pattern.

5.2.Explaining the Test of Hypothesis

As the number of observations in this work project is low – the total number of Facebook’s acquisitions is 63 – each hypothesis described above was tested individually for each acquisition and summarised in Appendix 5. To verify whether a hypothesis is true or false, extensive research was done on each deal with the information available on press releases, annual reports, and media web sites. Any inaccuracy in the results shown on Appendix 5 are explained by lack of public information on the acquisitions performed by Facebook Inc.

5.3.Hypothesis 1

Facebook had its first legal issue against the Winklevoss brothers who accused Mark Zuckerberg of stealing their idea and key source code from their Harvard students-only social network, *ConnectU*. The court settlement was achieved with a payment valued at the time at 31 million dollars to the *ConnectU* founders which included the acquisition of their platform by Facebook, making it the second acquisition of the company. Would this bad outcome for Facebook make the company more cautious with other companies?

Throughout Facebook’s long list of acquisitions, three different results can be concluded.

5.3.1. Tech Acquisitions & Features Incorporation: Avoiding Law suits? No direct link

It can be concluded, after careful analysis of each acquisition, that there’s no evidence that Facebook acquired companies with the clear objective of avoiding law suits from copying features from other digital platforms. Besides, there’s no clear way of protecting website features, because what is crucial is the source code behind those, which can be protected by patents, not the features themselves. Despite this fact, it can be verified that Facebook did

acquire some companies with the purpose of tech acquisition and features incorporation, like the acquisition of *FriendFeed*, *Octazen*, *Devyshot*, *Snaptu*, among others.

5.3.2. Initial Public Offering: Acquisition Trigger

With the IPO in sight, Facebook acquired the company Friendster patents in May 2010 by 40 million dollars, which was a clear move to cast away any doubt of anyone else having Facebook's intellectual property.

Despite the efforts, just one week before Facebook's IPO, Yahoo Inc sues Facebook Inc over 10 patents, including methods and systems for advertising on the web.

Over time, Facebook has bought and issued several granted patents and patents requirements, respectively, and now holds right to 2652 patents granted by the United States Patent and Trademark Office. The number of patents will keep rising and Facebook is now more worried in preventing patent litigation.

So, Friendster's acquisition appears as an isolated act with the purpose of acquiring intellectual property, namely patents, in a legal issues risk management perspective.

5.3.3. Tech Acquisitions & Features Incorporation as solo drivers – Hypothesis 1'

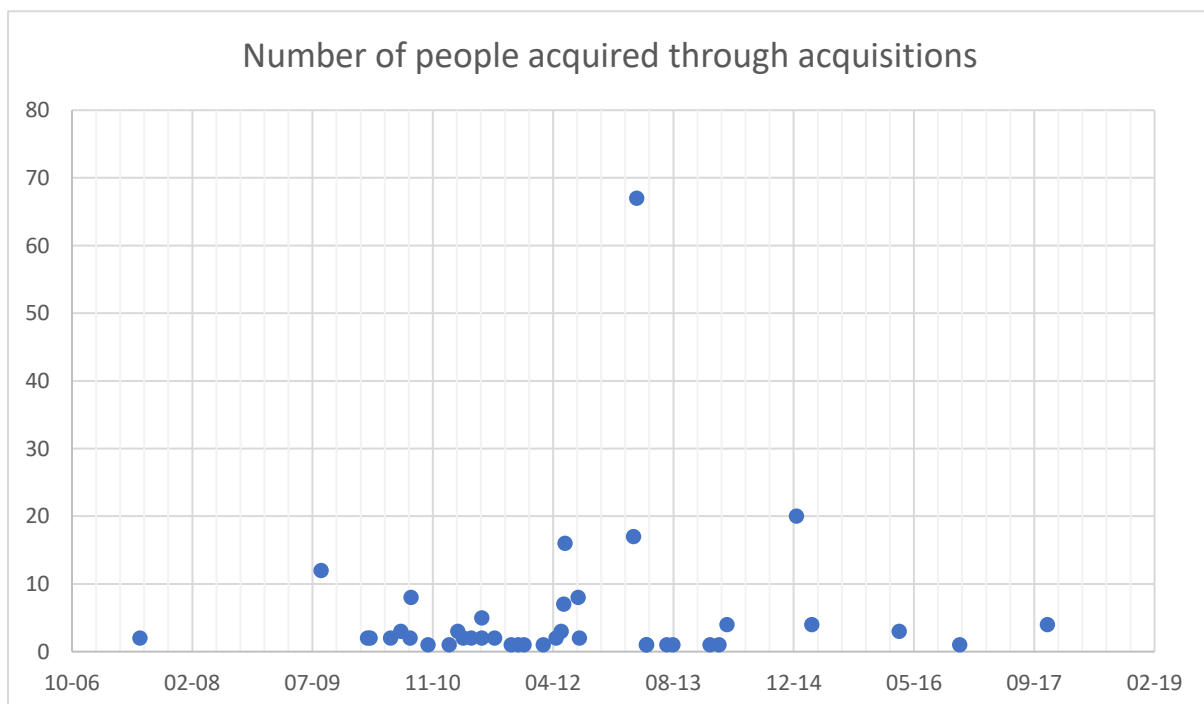
It is very difficult to gather information or reach solid conclusions when assessing whether a Facebook acquisition was driven by tech acquisition or features incorporation, mainly because that specific information is collected through media content and press releases which do not disclose information in a complete or verifiable way. However, based on that information, Appendix 5 resumes on the column H1' all acquisitions driven by tech or product incorporation. It can be concluded that 69.84 % of the acquisitions have as main driver tech acquisition or features incorporation. Nevertheless, the main question of why Facebook doesn't develop that tech with internal resources remains unanswered in this Hypothesis. Can it be that

Facebook does it to acquire the technology more quickly? The research conducted in this thesis doesn't find any evidence on that matter, despite common sense telling it is rational to assume it to be highly probable.

5.4. Hypothesis 2

5.4.1. Talent Acquisition: Big Numbers

Talent Acquisition is consistent throughout Facebook's lifetime, in a continuous quest for innovation and know-how incorporation. Out of 63 acquisitions performed by Facebook, more than 200 people (there's no accurate public information) were acqui-hired in a total of 40 companies acquired. Meaning that, in 63.49% of Facebook's acquisitions, talent acquisition was one of the main drivers. Graph 1 illustrates the number of people acqui-hired through Facebook's acquisitions in time. This representation helps us understand that despite not existing a clear pattern in talent acquisition through M&A – just that it happens consistently over the lifespan of Facebook's M&A activity – there's higher talent acquisition activity from 2009 to 2013.



Graph 1: Talent Acquisition through time

This observation may be explained by the fact that latest acquisitions are driven by other factor or factors than talent acquisition. This topic is due to further analysis on Hypothesis 4 and 5.

5.4.2. Public Statements

As written in Chapter 4, Facebook's CEO, Mark Zuckerberg, clearly stated various times on public events that Facebook acquires companies to get **excellent people**. The focus of these "acqui-hirings" is to make sure that the recruitment process is the best possible, always trying to maintain an **entrepreneurial environment** to boost innovation.

Talent Acquisition is a fair explanatory component of why Facebook does not develop its competitors' products internally, and instead acquires the very same companies that develop those products. Along with the product, are integrated valuable human resources and product development know-how.

5.5. Hypothesis 3

On chapter 3 of this thesis, it is covered the topic of how Facebook monetises its business and it is concluded that around 97% of their revenue comes from highly targeted ads, mainly sold to companies.

5.5.1. Conducting an empirical test

An important part of this hypothesis' testing is to understand if the dollars in millions spent on Acquisitions has a statistically significant effect on Facebook Inc's Revenue in the following quarter, controlling for time trends and other significant events. To test described above shall result in a regression of the following structure:

$$Revenues_t = \beta_1 \text{ number of users }_t + \beta_2 \$ \text{ spent on M\&A}_{t-1} + \beta_3 t + \varepsilon_t$$

However, this shall lead to a relevant result, there are a few relevant obstacles that will jeopardise the results. They are described as follows:

- It won't be possible to conduct a ceteris paribus analysis, because the number of observations is too small: Even using quarterly data, as described above, there is no information on around 70% of the deals made by Facebook.
- Facebook became a publicly listed company in 2012 which also contributes to the scarcity of public data on Facebook Inc's financials from years prior to that same date.
- Finally, the number of users from the acquired companies is not often public information, leading to a difficult conclusion on whether it is rational to assume that the acquisitions were driven by user base dilation or by other factors.

Having this said, it is concluded that there's no point in conducting such analysis, at this time of the company's lifespan, mainly to scarcity and inaccuracy of information collected.

Despite this fact, when looking at the deals separately, it can be concluded that there are at least 8 acquisitions driven by customer acquisition and user base enlargement, and revenue diversification. Those are Snaptu, Instagram, Parse, Onavo, SportStream, WhatsApp, Oculus, and CrowdTangle.

5.5.2. Hypothesis 3': Improving Facebook's offer to ad buyers

Another interesting conclusion when analysing Facebook's deals one by one is that there are companies that despite not diversifying the parent company revenue streams, nor increasing significantly its user base, end up contributing with technological innovation or innovative practices to the optimisation of the product Ad Buyers buy. The companies are disposed in the column H3' on Appendix 5.

5.6. Hypothesis 4

5.6.1. It's all about being the fastest: Speedy Zuckerberg

The acquisitions of Instagram and WhatsApp are the two most iconic deals from Facebook's long list of acquisitions. These deals improved Facebook's competitive situation significantly,

not only because of the user base enlargement and elimination of two fast growing competitors as discussed in hypothesis 3, but also because these deals prevented Facebook's competitors from acquiring the very same companies which would lead Google, Twitter, or other to own direct competitors of two of Facebook's most famous functionalities, photo sharing and messaging.

5.6.2. Positioning Facebook to be on top of the world: Strategic Zuckerberg

"Facebook's mission is to give everyone in the world the power to share and make the world more open and connected. In our effort to connect the whole world with Internet.org, we've been working on ways to beam internet to people from the sky. Today, we're sharing some details of the work Facebook's Connectivity Lab is doing to build drones, satellites ... and lasers to deliver the internet to everyone." *Zuckerberg's blog*

5.6.2.1. Internet.org

Internet.org is a partnership between Facebook and six other companies in the communication sector, which aims at taking Internet to everyone in the world. The deed is to be achieved through drones, satellites, and lasers. The acquisitions of Ascenta and Endaga was driven by this goal.

5.6.2.2. Other Acquisitions for Facebook's competitive situation improvement

There are also acquisitions of companies that have very-alike features and content generation with some of Facebook's main competitors, like Snapchat, Twitter, and Google, which are the cases of Jibbigio, SportStream, ProtoGeo Oy, Masquerade, and the most recent acquisition tbh.

5.7. Hypothesis 5

From 2014 onwards, Facebook starts acquiring companies with the goal of creating new business areas with innovative technology, namely Virtual Reality and Artificial Intelligence.

5.7.1. Virtual Reality

The acquisition of Oculus VR, on the 25th March 2014, is a game-changer on Facebook's strategy so far. Facebook was focused in delivering its products to every single person on earth to enlarge its user base and establish itself as the main web-based platform in the world. The acquisition of Oculus VR redirections Facebook Inc's strategy towards the creation of a completely new experience, Virtual Reality, for its users. Other VR related acquisitions are Surreal Vision, Pebbles, Two Big Ears, and InfiniLED.

5.7.1.1.Public Statements

Mark Zuckerberg in a post on Oculus VR acquisitions states that: "... at this point we feel we're in a position where we can start focusing on what platforms will come next to enable even more useful, entertaining and personal experiences. This is where Oculus comes in. They build virtual reality technology, like the Oculus Rift headset. When you put it on, you enter a completely immersive computer-generated environment, like a game or a movie scene or a place far away. The incredible thing about the technology is that you feel like you're actually present in another place with other people. People who try it say it's different from anything they've ever experienced in their lives." (Zuckerberg, 2014)

5.7.2. Artificial Intelligence

Facebook also acquired Faciometrics and Ozlo in 2017 for its AI technology. The first for "Gesture-based controls, recognize facial expressions and perform related actions." And the second to improve the technology behind Facebook's Messenger chatbots launched in 2016.

6. Further discussion: Hypotheses' Issues

The hypothesis tested are not mutually exclusive, which makes it more difficult to capture the a dominant driver for the acquisitions that take place. And the most probable explanation for

Facebook's acquisitions is a combination of the four hypotheses. A "*ceteris paribus*" analysis might not be possible to conduct, given the number of observations. Facebook's acquisitions total 63, and information on the deals and other important captions is not disclosed. It can also be concluded that it is possible to find that different hypotheses apply to different levels of target company size, per example, hypothesis 3 is true for more expensive deals.

7. Conclusions

When concluding on whether there is a pattern in Facebook's Acquisitions strategy, one must bear in mind that each deal may have specific drivers, and that a pattern may not exist, because each deal is a different deal. However, the results of the analysis conducted in this thesis are somehow explanatory on why Facebook acquires companies instead of replicating those companies' products, and go as follows:

The different Hypotheses tested are applied on different timeframes:

- **H1 is true one time before IPO:** Facebook acquired Friendster to gather patents on its intellectual property to avoid patent litigation before its Initial Public Offering.
 - **H1' is true in 42 out 63 acquisitions (69.84%),** meaning that Tech and Features Incorporation are important drivers of Facebook Inc's Acquisitions.
- **H2 is true across all Facebook's history,** as a continuous quest for innovation and team improvement. Talent acquisitions were made in 63.49% of the deals.
- **H3 is true for more expensive deals like Instagram and WhatsApp,** among others, totalling 8 deals. However, other deals were key in improving Facebook's Ads as a sellable and highly demanded product, and for those **H3' is true.**
- **H4 is true from 2012 onwards** with the acquisition of two of Facebook's direct competitors, Instagram and WhatsApp, and later on the acquisition of companies which will allow Internet and Facebook to be basic daily services to every person in the world.

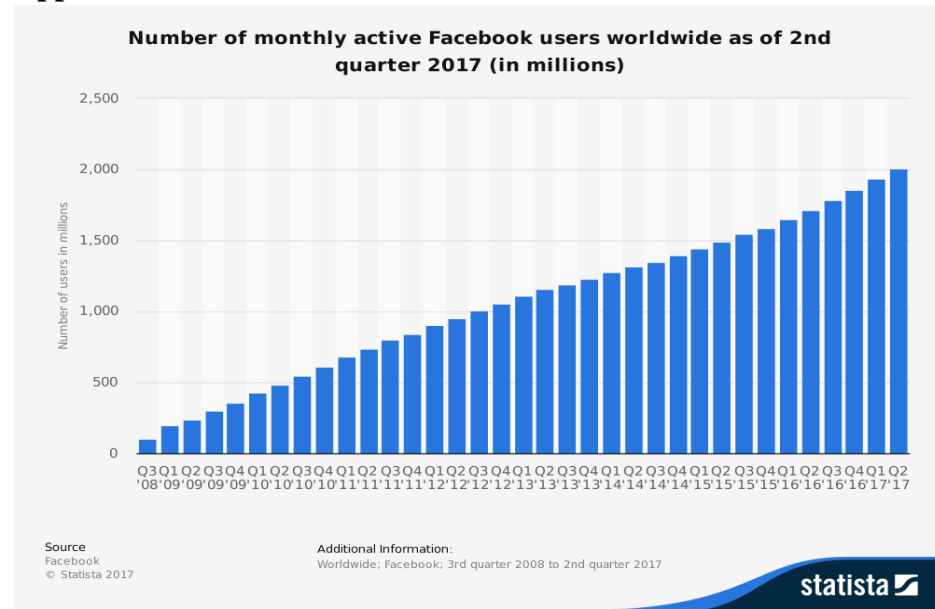
- **H5 is true in more recent years from 2014 onwards** for Virtual Reality and in 2017 for Artificial Intelligence. So, since 2014 Facebook is focusing on finding new and innovative business areas through M&A.

Another interesting conclusion is that different hypotheses apply to different levels of M&A dimension: Hypothesis H3, H3' and H4 are prevalent when Facebook acquires tech giants like Instagram, and WhatsApp. H1' and H2 are prevalent when Facebook acquires new-born or mid-life start-ups.

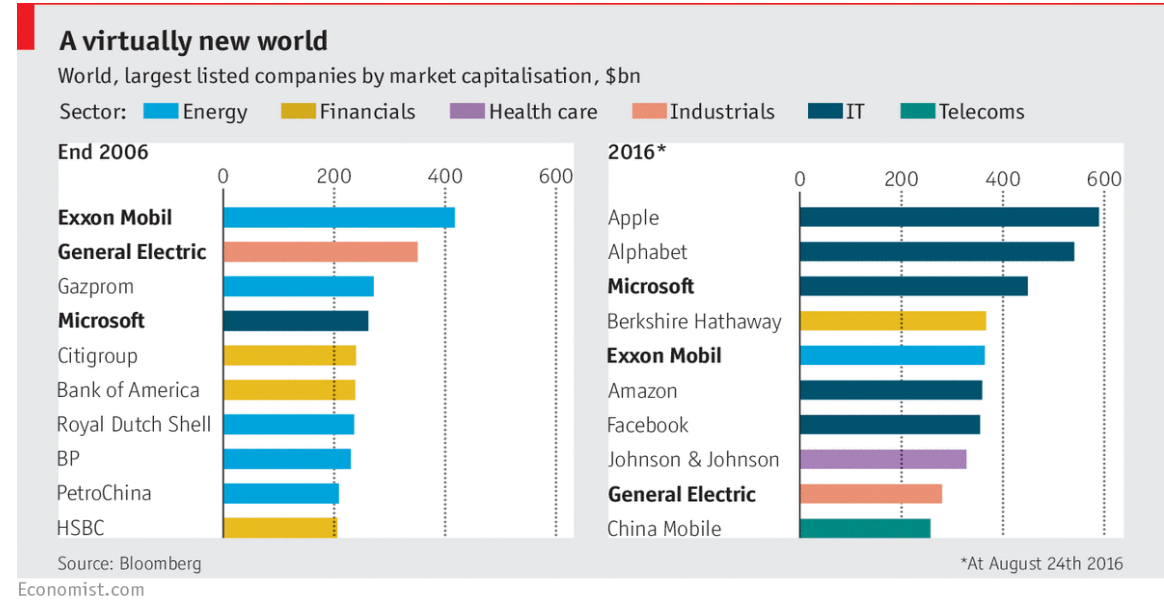
7.1. Three Horizons of Growth

Facebook's Acquisitions can also be evaluated and divided into a three-horizon perspective: Horizon 1: Maintain and defend the core business to ensure immediate sustainability, which englobe acquisitions of new-born and mid-life start-ups, and Instagram. Horizon 2: Nurture emerging business: Investing in the medium-term profitability, which is the case for WhatsApp, and other ventures like Sportstream and ProtoGeo Oy. Horizon 3: Create genuinely new businesses: Planting seeds for long-term growth and survival, which is the case for ventures like Oculus VR and other augmented and virtual reality, and artificial intelligence related acquisitions. Given the industry's volatility and fast-moving environment, an acquisition can be framed at any horizon at any time of the firm's life and still be valid, meaning that there is no obvious correlation between the horizons and the life-time of Facebook. At any time, Facebook may have to acquire a company to defend the core business, to invest in medium-term growth, or to invest in ventures which will be the basis for the creation of new businesses: in a nutshell all these acquisitions are driven by the need to ensure the long-term sustainability of Facebook, Inc in a fast changing environment and in an industry with almost no frontiers – that is the common theme across all acquisitions realized so far.

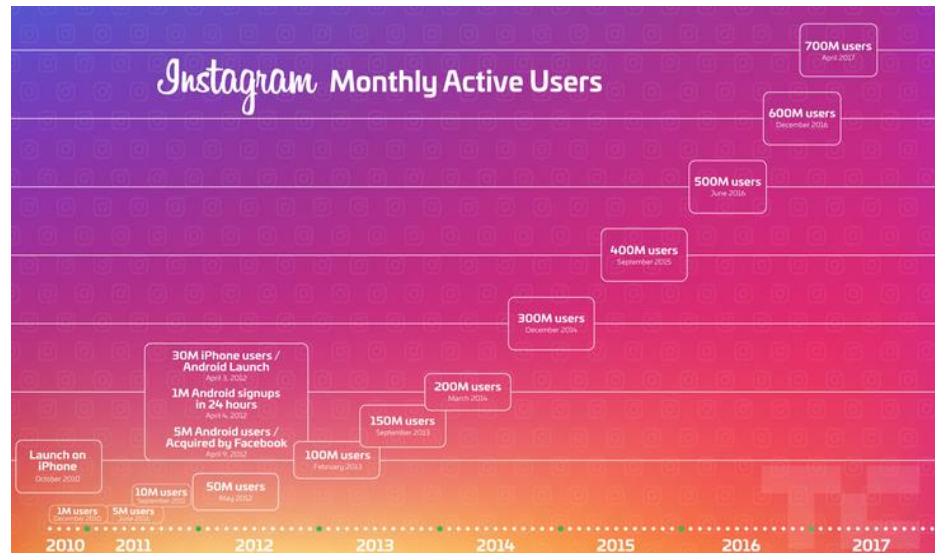
Appendices



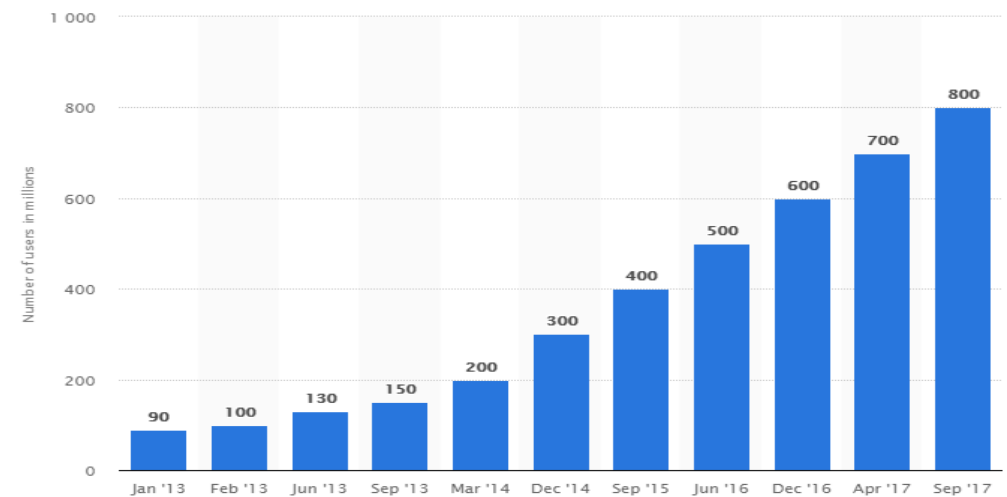
Appendix 1: Facebook's monthly active users from 2008 to 2017. *Source: statista.com*



Appendix 2: World Largest Listed Companies 2006 vs 2016 *Source: Economist.com*



Appendix 3: Instagram's Monthly Active Users from 2010 to 2017. *Source: proutsocial.com*



Appendix 4: Instagram's Monthly Active Users from Jan2013 to Sep2017. *Source: statista.com*

Appendix 5 – Hypothesis Testing

Acquisition Date	Company	Business/ Quick Description	H1	H1'	H2	H3	H3'	H4	H5
19 July 2007	Parakey	Offline Application/ Web Desktop	FALSE	FALSE	TRUE	FALSE	FALSE	FALSE	FALSE
23 June 2008	ConnectU	Social Networking	TRUE	FALSE	FALSE	FALSE	FALSE	FALSE	FALSE
10 August 2009	FriendFeed	Social Networking Aggregator	FALSE	TRUE	TRUE	FALSE	FALSE	FALSE	FALSE
19 February 2010	Octazen	Contact Importer	FALSE	TRUE	TRUE	FALSE	FALSE	FALSE	FALSE
02 March 2010	Divvyshot	Photo Management	FALSE	TRUE	TRUE	FALSE	FALSE	FALSE	FALSE
13 May 2010	Friendster patents	Intellectual Property/ Patents	TRUE	FALSE	FALSE	FALSE	FALSE	FALSE	FALSE
26 May 2010	ShareGrove	Private conversations/Forums	FALSE	TRUE	TRUE	FALSE	FALSE	FALSE	FALSE
08 July 2010	Nextstop	Travel Recommendations	FALSE	TRUE	TRUE	FALSE	FALSE	FALSE	FALSE
15 August 2010	Chai Labs	Internet Applications	FALSE	TRUE	TRUE	FALSE	FALSE	FALSE	TRUE
20 August 2010	Hot Potato	Check-in/ status updates	FALSE	FALSE	TRUE	FALSE	FALSE	FALSE	FALSE
29 October 2010	Drop.io	File hosting and sharing	FALSE	TRUE	TRUE	FALSE	FALSE	FALSE	FALSE
25 January 2011	Rel8tion	Mobile Advertising	FALSE	TRUE	TRUE	FALSE	TRUE	FALSE	FALSE
02 March 2011	Beluga	Group Messaging	FALSE	TRUE	TRUE	FALSE	FALSE	FALSE	FALSE
20 March 2011	Snaptu	Mobile App Developer	FALSE	TRUE	FALSE	TRUE	FALSE	FALSE	FALSE
24 March 2011	RecRec	Computer Vision	FALSE	FALSE	TRUE	FALSE	FALSE	FALSE	FALSE
27 April 2011	DayTum	Information Graphics	FALSE	FALSE	TRUE	FALSE	FALSE	FALSE	FALSE
09 June 2011	Sofa	Software Design	FALSE	TRUE	TRUE	FALSE	FALSE	FALSE	FALSE

09 June 2011	MailRank	Email prioritization	FALSE	FALSE	TRUE	FALSE	FALSE	FALSE	FALSE
02 August 2011	Push Pop Press	Digital Publishing	FALSE	TRUE	TRUE	FALSE	FALSE	FALSE	FALSE
10 October 2011	Friend.ly	Social Casual Q&A Service App	FALSE	FALSE	TRUE	FALSE	FALSE	FALSE	FALSE
08 November 2011	Strobe	HTML5 mobile Apps, SproutCore	FALSE	FALSE	TRUE	FALSE	FALSE	FALSE	FALSE
02 December 2011	Gowalla	Location Based Service	FALSE	TRUE	TRUE	FALSE	FALSE	FALSE	FALSE
20 February 2012	Caffeinatedmind	In-browser file transfer	FALSE	TRUE	TRUE	FALSE	FALSE	FALSE	FALSE
09 April 2012	Instagram	Photo sharing	FALSE	FALSE	FALSE	TRUE	FALSE	TRUE	FALSE
13 April 2012	Tagtile	Customer Loyalty App	FALSE	TRUE	TRUE	FALSE	FALSE	FALSE	FALSE
05 May 2012	Glancee	Social Discovery Platform	FALSE	TRUE	TRUE	FALSE	FALSE	FALSE	FALSE
15 May 2012	Lightbox.com	Photo Sharing	FALSE	TRUE	TRUE	FALSE	FALSE	FALSE	FALSE
21 May 2012	Karma	Social Gifting	FALSE	TRUE	TRUE	FALSE	TRUE	FALSE	FALSE
18 June 2012	face.com	Face Recognition Platform	FALSE	TRUE	FALSE	FALSE	FALSE	FALSE	FALSE
14 July 2012	Spool	Mobile Bookmarking and Sharing Content	FALSE	FALSE	TRUE	FALSE	FALSE	FALSE	FALSE
20 July 2012	Acrylic Software	RSS App Pulp and secure database App Wallet	FALSE	FALSE	TRUE	FALSE	FALSE	FALSE	FALSE
24 August 2012	Threadsy	Social Aggregator, Social Marketing Tool	FALSE	TRUE	FALSE	FALSE	TRUE	FALSE	FALSE
28 February 2013	Atlas Solutions	Atlas Advertiser Suite	FALSE	TRUE	FALSE	FALSE	TRUE	FALSE	FALSE
01 March 2013	osmeta	Mobile Software	FALSE	TRUE	TRUE	FALSE	FALSE	FALSE	FALSE
14 March 2013	Hot Studio	Design Agency	FALSE	FALSE	TRUE	FALSE	FALSE	FALSE	FALSE

23 April 2013	Spaceport	Cross-platform game framework	FALSE	FALSE	TRUE	FALSE	FALSE	FALSE	FALSE
25 April 2013	Parse	Mobile App Backends	FALSE	TRUE	TRUE	TRUE	TRUE	FALSE	FALSE
18 July 2013	Monoidics	Automatic verification software	FALSE	TRUE	TRUE	FALSE	FALSE	FALSE	FALSE
12 August 2013	Jibbig	Speech translation App	FALSE	TRUE	TRUE	FALSE	FALSE	TRUE	FALSE
13 October 2013	Onavo	Mobile analytics	FALSE	TRUE	FALSE	TRUE	FALSE	TRUE	FALSE
17 December 2013	SportStream	Sports conversation analysis	FALSE	FALSE	FALSE	TRUE	FALSE	TRUE	FALSE
08 January 2014	Little Eye Labs	Performance analysis and monitoring tools for Android	FALSE	TRUE	FALSE	FALSE	TRUE	TRUE	FALSE
13 January 2014	Branch	Web Conversation Platform	FALSE	FALSE	TRUE	FALSE	FALSE	TRUE	FALSE
19 February 2014	WhatsApp	Mobile Instant Messaging	FALSE	FALSE	TRUE	TRUE	FALSE	TRUE	FALSE
25 March 2014	Oculus VR	Virtual Reality Technology	FALSE	FALSE	TRUE	TRUE	FALSE	FALSE	TRUE
27 March 2014	Ascenta	High-altitude UAVs	FALSE	FALSE	FALSE	FALSE	FALSE	TRUE	FALSE
24 April 2014	ProtoGeo Oy	Fitness tracking app moves	FALSE	FALSE	FALSE	FALSE	FALSE	TRUE	FALSE
07 August 2014	PrivateCore	Secure Server Technology	FALSE	TRUE	FALSE	FALSE	FALSE	FALSE	FALSE
14 August 2014	LiveRail	Publisher Monetisation Platform	FALSE	TRUE	FALSE	FALSE	TRUE	FALSE	FALSE
26 August 2014	WaveGroup Sound	Sound Studio	FALSE	TRUE	FALSE	FALSE	FALSE	FALSE	FALSE
06 January 2015	Wit.ai	Speech Recognition	FALSE	TRUE	FALSE	TRUE	TRUE	FALSE	FALSE
08 January 2015	Quickfire Networks	Video Compression	FALSE	TRUE	TRUE	FALSE	FALSE	FALSE	FALSE
13 March 2015	TheFind, Inc	Ecommerce	FALSE	TRUE	TRUE	FALSE	TRUE	FALSE	FALSE

26 May 2015	Surreal Vision	Computer Vision, Augmented Reality	FALSE	TRUE	FALSE	FALSE	TRUE	FALSE	TRUE
03 October 2015	Endaga	Rural Communications	FALSE	TRUE	FALSE	FALSE	FALSE	TRUE	FALSE
16 June 2015	Pebbles	Computer Vision, Augmented Reality	FALSE	TRUE	FALSE	FALSE	FALSE	FALSE	TRUE
09 March 2016	MSQRD (Masquerade)	Visual Effects	FALSE	TRUE	TRUE	FALSE	FALSE	TRUE	FALSE
23 May 2016	Two Big Ears	Spatial Audio	FALSE	TRUE	FALSE	FALSE	FALSE	FALSE	TRUE
10 October 2016	InfiniLED	LED displays	FALSE	TRUE	FALSE	FALSE	FALSE	FALSE	TRUE
11 November 2016	CrowdTangle	Publisher Analytics	FALSE	TRUE	FALSE	TRUE	TRUE	FALSE	FALSE
16 November 2016	Faciometrcis	Computer Vision Machine Learning	FALSE	TRUE	TRUE	FALSE	FALSE	FALSE	TRUE
31 July 2017	Ozlo	Artificial Intelligence, Chatbots	FALSE	TRUE	FALSE	FALSE	FALSE	FALSE	TRUE
16 November 2017	tbh	Anonymous Social Media App	FALSE	FALSE	TRUE	FALSE	FALSE	TRUE	FALSE

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